

WEBSTER COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITORS' REPORT
ON BASIC FINANCIAL STATEMENTS

AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2013

WEBSTER COUNTY SCHOOL DISTRICT
Table of Contents
for the year ended June 30, 2013

Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position – Fiduciary Fund	21
Notes to the Basic Financial Statements	22-37
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	38
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue	39
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Construction Fund	40

Summary of Significant Accounting Policies for Budgetary Process	41
Supplemental Information:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	43
Combining Schedule of Receipts, Disbursements and Fund Balances – All Activity Funds	44
Schedule of Receipts, Disbursements and Fund Balances – Webster County High School	45
Schedule of Expenditures of Federal Awards.....	46-47
Board Members and Administrative Personnel.....	48
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49-50
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	51-53
Schedule of Findings and Questioned Costs	54-55
Management Letter	56-58
Prior Year Management Letter	59-60



Michael L. Overby, CPA, PLLC
Certified Public Accountant
2201 Westerfield Drive, Suite C
Providence, KY 42450

INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webster County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Webster County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by Kentucky State Committee for School District Audit's Fiscal Year 2012-2013 Financial Audit Contract. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Webster County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-10 and 38-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Webster County School District's basic financial statements. The combining and individual nonmajor fund financial statements/schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements/schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 28, 2013, on my consideration of the Webster County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Webster County School District's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Michael L. Overby CPA, PLLC". The signature is written in a cursive, flowing style.

Michael L. Overby, CPA, PLLC
Providence, Kentucky
October 28, 2013

**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2013**

As management of the Webster County School District (District or School District), we offer readers of the District's financial statements this narrative and analysis of the financial activities of the District for the fiscal year ending June 30, 2013. We encourage readers to consider the information presented here in conjunction with the additional information found in the body of the audit.

FINANCIAL HIGHLIGHTS

1. The beginning Governmental Fund Balance for the District was \$1,282,278. The ending balance was \$1,453,038, which was an increase of \$170,760, which was the result of the general fund revenues exceeding budget amounts.
2. At June 30, 2012, the school district had \$17,157,039 in bonds outstanding, of which \$6,836,240 is to be paid from the SFCC funding provided by the Commonwealth of Kentucky. \$947,315 in principal and interest will be required to service the outstanding bonds during the next year.
3. The Webster County School District Finance Corporation issued energy conservation bonds Series 2012 on October 11, 2012. The proceeds were used to enable the schools to become more energy efficient.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the district's basic financial statements. The district's basic financial statements have three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net position presents information of all the district's assets and liabilities, with the differences between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the district's net positions changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the district include instruction, support services, operation and maintenance of plant, student transportation and operation of non-institutional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related

**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2013 (Cont)**

legal requirements. All of the funds of the District can be divided into three (3) categories: governmental, proprietary, and fiduciary. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is for food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements will be found on pages 13-16 of this report.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 22-37 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (*e.g.*, land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The district uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the district's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

The district's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the year ending June 30, 2013

	2013	2012	2013 Change
Current Assets	\$ 3,349,434	\$ 2,836,251	\$ 513,183
Noncurrent Assets	25,118,359	21,797,207	3,321,152
Total Assets	28,467,793	24,633,458	3,834,335
Current Liabilities	2,534,236	1,862,571	671,665
Noncurrent Liabilities	17,587,926	14,836,146	2,751,780
Total Liabilities	20,122,162	16,698,717	3,423,445
Net Position			
Investment in Capital Assets (net of debt)	6,710,555	6,286,126	424,429
Restricted	79,042	130,060	(51,018)
Unreserved Fund Balance	1,556,034	1,518,555	37,479
Total Net Position	\$ 8,345,631	\$ 7,934,741	\$ 410,890

**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2013 (Cont)**

Changes in Net Positions for the year ending June 30, 2013

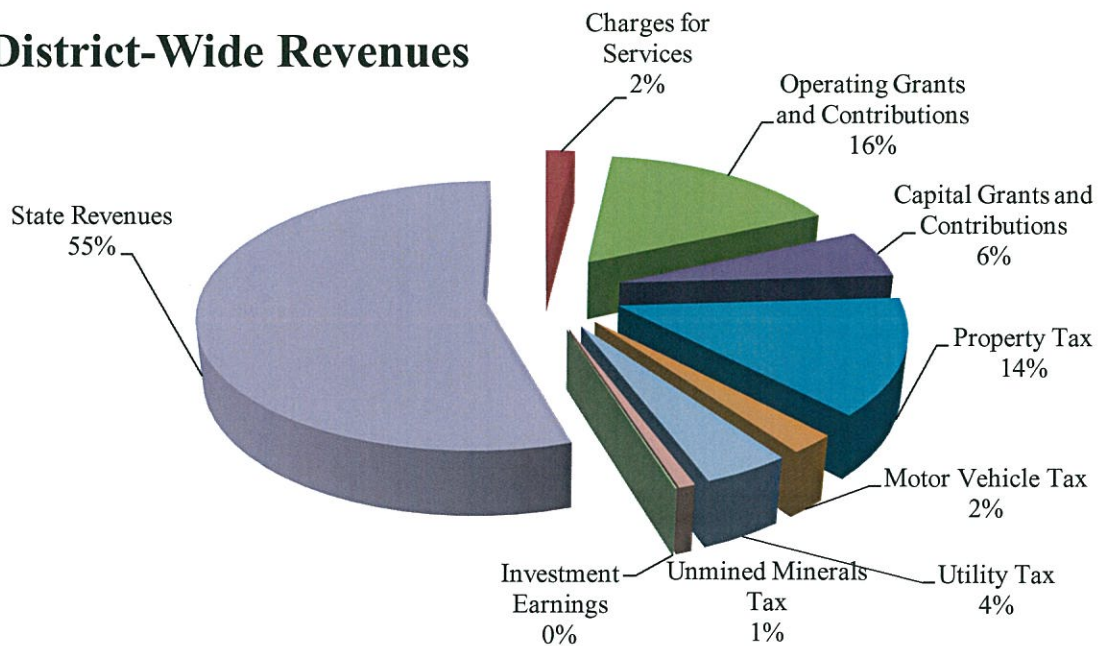
	Governmental Activities	Business-Type Activities	Total
Revenues			
Charges for Services	\$ -	\$ 429,442	\$ 429,442
Operating Grants and Contributions	2,286,699	893,238	3,179,937
Capital Grants and Contributions	1,232,860	-	1,232,860
Property Tax	2,962,950	-	2,962,950
Motor Vehicle Tax	477,856	-	477,856
Utility Tax	893,795	-	893,795
Unmined Minerals Tax	171,274	-	171,274
Investment Earnings	13,981	1,565	15,546
State Revenues	11,748,186	-	11,748,186
Other	89,263	-	89,263
Total Revenues	19,876,864	1,324,245	21,201,109
Expenses			
Instruction	7,396,905	-	7,396,905
Student Support Services	1,085,222	-	1,085,222
Instructional Support	2,081,122	-	2,081,122
District Administration	756,008	-	756,008
School Administration	1,320,233	-	1,320,233
Business Support	1,028,943	-	1,028,943
Plant Operations	2,163,865	-	2,163,865
Student Transportation	1,185,363	-	1,185,363
Community Service	197,158	-	197,158
Food Service	-	1,267,530	1,267,530
Interest on Long Term Debt	598,669	-	598,669
Depreciation of Assets	939,856	-	939,856
Transfers	(40,000)	40,000	-
Total Expenses	18,713,344	1,307,530	20,020,874
Change in Net Position	\$ 1,163,520	\$ 16,715	\$ 1,180,235

**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

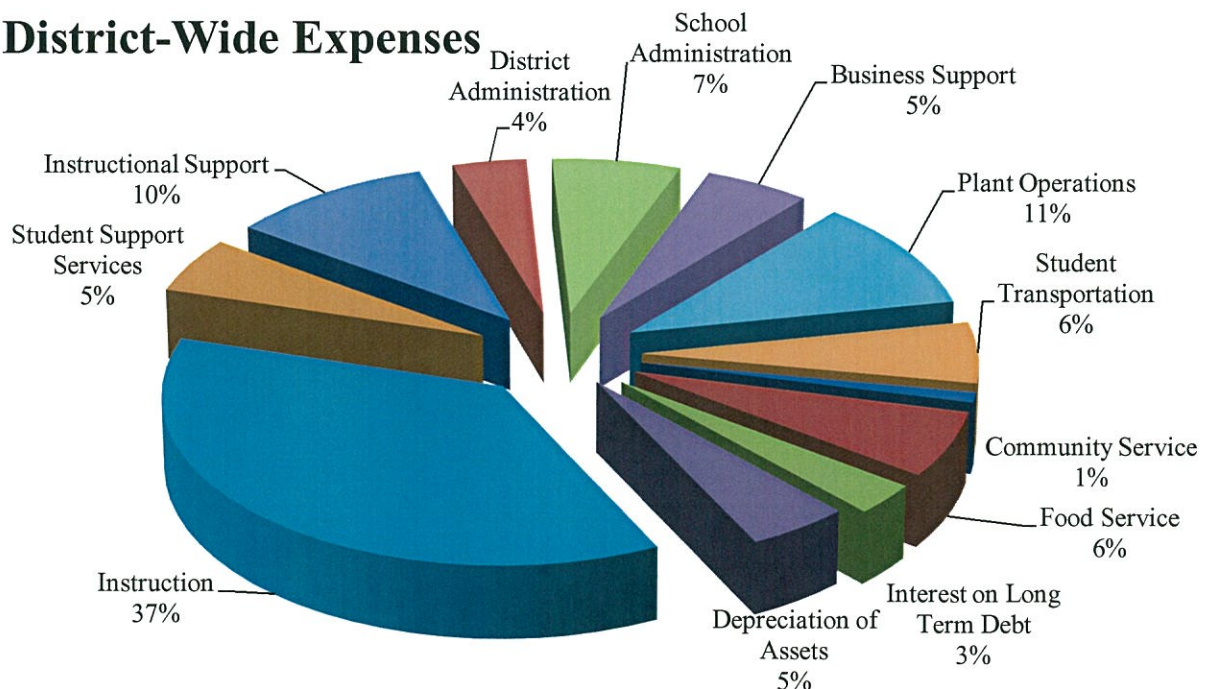
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2013 (Cont)**

- The District's total revenues were \$21,201,109 and the total expenditures were \$20,020,874, which resulted in a net increase in Assets of \$1,180,235 for the year.
- State and Federal Revenues accounted for 76% of total revenues and local taxes account for 21%.

District-Wide Revenues



District-Wide Expenses



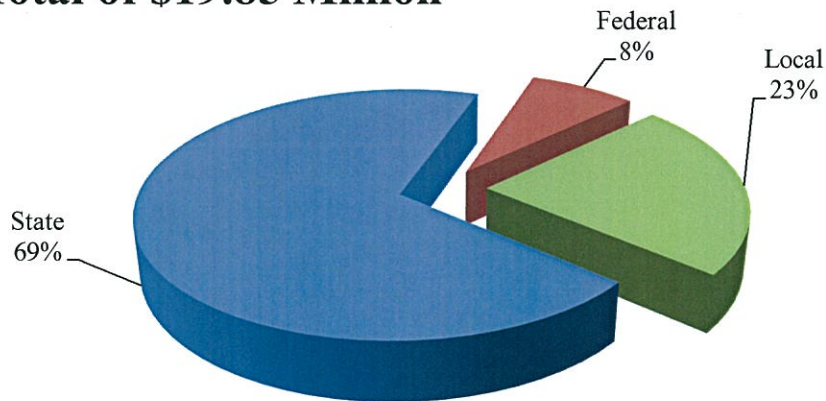
**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2013 (Cont)**

GOVERNMENTAL FUNDS HIGHLIGHTS

- The General Fund revenues for the year were \$15,789,620, with \$11,802,352 of this coming from state and federal revenues and the remaining \$3,987,268 from local sources.
- Total General Fund Expenditures were \$15,648,665, with instruction cost being the largest area at \$6,825,084.
- The net excess of revenue over expenses was \$140,955 and resulting in an increase in fund balance of \$17,687.
- The Special Revenue fund expenditures for the year were \$2,233,637. The two major sources of revenues for these grants were State Grants totaling \$730,306 and Federal Grants totaling \$1,502,227.
- The Other Governmental Funds included Facility construction costs totaling \$3,209,248.
- The Other Governmental Funds also included Debt Service payments of \$1,579,991, broken down as \$981,322 for principal payments, \$598,669 for interest and bank fees.
- The total ending fund balances at June 30, 2013 were \$1,343,769 in the General Fund and \$109,269 in Other Governmental funds for a total of \$1,453,038.

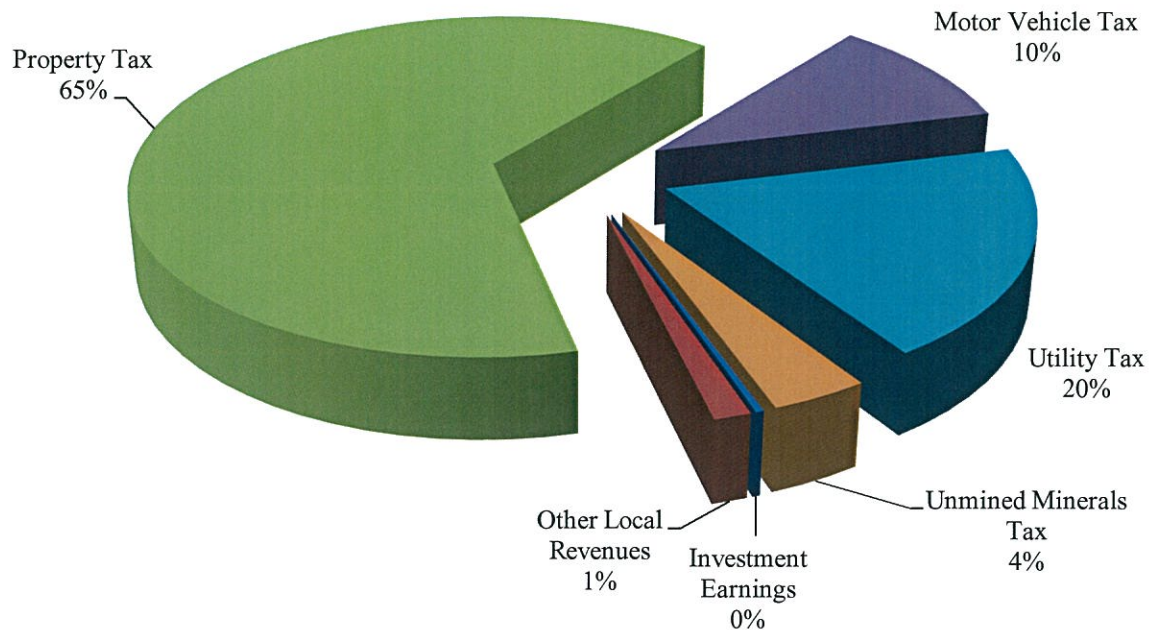
**Governmental Fund Revenues
Total of \$19.85 Million**



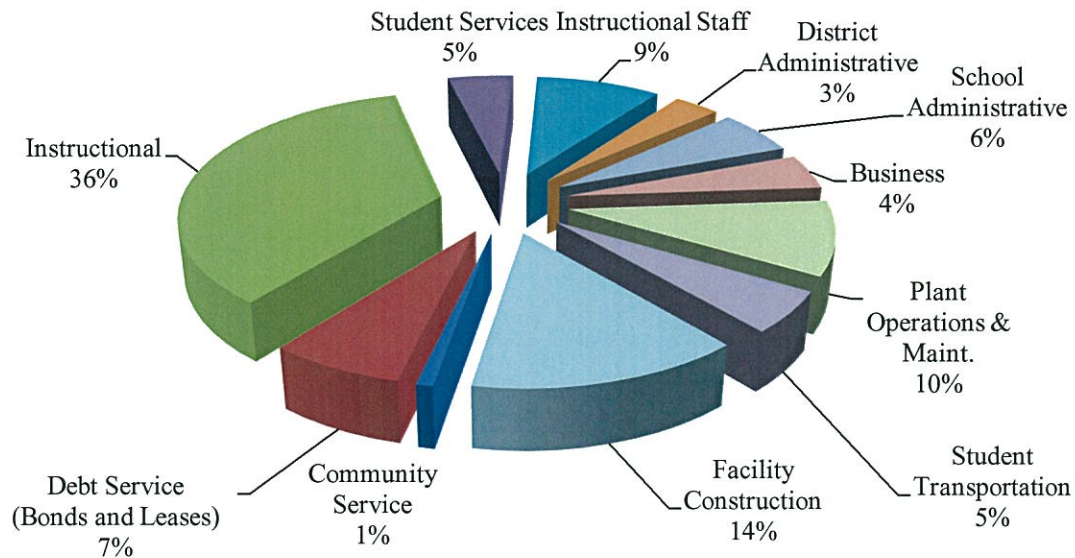
**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2013 (Cont)**

Local Revenues: Total of \$4.3 Million



Governmental Fund Expense: Total of \$22.7 Million



**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2013 (Cont)**

COMMENTS ON GENERAL FUND BUDGET COMPARISONS

- The actual Revenues and Expenses both include \$3,383,474 of On-Behalf payments that are not included in the original or final budgets. These represent payments for employee benefits paid at the state level on behalf of the local school district. The comments below are net of these on-behalf payments.
- The total revenues were \$3.2 Million better than the final budget. The major revenue line items better than budget were \$3.2 Million in state revenue. 193 Thousand in utility taxes.
- Total expenditures were over budget by 1.95 Million. However, the actual included 3.4 Million of On-Behalf expenses with no corresponding budget. Actual expenses were 1.4 Million better than budget excluding these two items.
- The majority of this favorable expenses variance was in Instruction at 127 Thousand, followed by Instructional Staff at 145 Thousand below budget. There were no functional areas over budget when the on-behalf expenses are considered.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools fiscal year is July1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2013-2014 with a 3% contingency. However, the current economic conditions are a major concern. The local budget contingency includes reserved funds for state economic shortfalls which will be used, if necessary, to protect the current level of direct classroom instruction.

REPORT PURPOSE AND CONTACT INFORMATION:

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any uestions about this report or need additional information, these inquiries should be directed to:

Dr. James Kemp, Superintendent
Webster County Schools at 28 St Rt 1340 in Dixon, KY 42409
Phone: 270-639-0101 or Email: james.kemp@webster.kyschools.us

WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 1,257,954	\$ 442,090	\$ 1,700,044
Inventory	-	91,399	91,399
Receivables:			
Taxes	160,074	-	160,074
Accounts Receivable	40,879	40,049	80,928
Intergovernmental - State	124,106	-	124,106
Intergovernmental - Federal	609,167	-	609,167
Restricted Cash	583,716	-	583,716
Total Current Assets	<u>2,775,896</u>	<u>573,538</u>	<u>3,349,434</u>
Noncurrent Assets			
Capital Assets, Net of Accumulated Depreciation	<u>25,035,244</u>	<u>83,115</u>	<u>25,118,359</u>
Total Noncurrent Assets	<u>25,035,244</u>	<u>83,115</u>	<u>25,118,359</u>
Total Assets	<u>27,811,140</u>	<u>656,653</u>	<u>28,467,793</u>
Liabilities			
Current Liabilities			
Accounts Payable	269,615	-	269,615
Deferred Revenue	1,053,243	-	1,053,243
Current Portion of Bond Obligations	947,315	-	947,315
Current Portion of Capital Lease Obligations	212,368	-	212,368
Current Portion of Accrued Sick Leave	50,195	1,500	51,695
Total Current Liabilities	<u>2,532,736</u>	<u>1,500</u>	<u>2,534,236</u>
Noncurrent Liabilities			
Noncurrent Portion of Bond Obligations	16,209,724	-	16,209,724
Noncurrent Portion of Capital Lease Obligations	1,038,397	-	1,038,397
Noncurrent Portion of Accrued Sick Leave	326,805	13,000	339,805
Total Noncurrent Liabilities	<u>17,574,926</u>	<u>13,000</u>	<u>17,587,926</u>
Total Liabilities	<u>20,107,662</u>	<u>14,500</u>	<u>20,122,162</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	6,627,440	83,115	6,710,555
Restricted for:			
Debt Service	1,412	-	1,412
Sick Leave	130,000	-	130,000
Site Based	57,776	-	57,776
Purchase Obligations	27,475	-	27,475
Other Purposes	(137,621)	-	(137,621)
Unrestricted	996,996	559,038	1,556,034
Total Net Position	<u>\$ 7,703,478</u>	<u>\$ 642,153</u>	<u>\$ 8,345,631</u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ (7,409,320)	\$ -	\$ 1,292,366	\$ -	\$ (6,116,954)	\$ -	\$ (6,116,954)
Support Services:							
Student	(1,085,222)	-	58,438	-	(1,026,784)	-	(1,026,784)
Instruction Staff	(2,081,122)	-	648,456	-	(1,432,666)	-	(1,432,666)
District Administrative	(756,008)	-	-	-	(756,008)	-	(756,008)
School Administrative	(1,320,233)	-	-	-	(1,320,233)	-	(1,320,233)
Business	(1,028,943)	-	-	-	(1,028,943)	-	(1,028,943)
Plant Operation and Maintenance	(2,163,865)	-	-	-	(2,163,865)	-	(2,163,865)
Student Transportation	(1,185,363)	-	92,923	-	(1,092,440)	-	(1,092,440)
Facilities Acquisition and Construction	-	-	-	1,232,860	1,232,860	-	1,232,860
Community Service Activities	(197,158)	-	194,516	-	(2,642)	-	(2,642)
Interest on Long-Term Debt	(598,669)	-	-	-	(598,669)	-	(598,669)
Depreciation	(939,856)	-	-	-	(939,856)	-	(939,856)
Total Governmental Activities	(18,765,759)	-	2,286,699	1,232,860	(15,246,200)	-	(15,246,200)
Business-Type Activities:							
Food Service	(1,267,530)	429,442	893,238	-	-	55,150	55,150
Total Business-Type Activities	(1,267,530)	429,442	893,238	-	-	55,150	55,150
Total Primary Government	\$ (20,033,289)	\$ 429,442	\$ 3,179,937	\$ 1,232,860	(15,246,200)	55,150	(15,191,050)
General Revenues:							
Taxes:							
					2,962,950	-	2,962,950
					477,856	-	477,856
					171,274	-	171,274
					893,795	-	893,795
					13,981	1,565	15,546
					65,148	-	65,148
					11,760,601	-	11,760,601
					24,115	-	24,115
					40,000	(40,000)	-
					1,163,520	16,715	1,180,235
					6,539,958	625,438	7,165,396
					\$ 7,703,478	\$ 642,153	\$ 8,345,631

The accompanying notes are an integral part of these financial statements.

WEBSTER COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Cash Equivalents	\$ 1,257,954	\$ -	\$ -	\$ -	\$ 1,257,954
Receivables:					
Taxes	160,074	-	-	-	160,074
Accounts Receivable	40,879	-	-	-	40,879
Intergovernmental - State	-	124,106	-	-	124,106
Intergovernmental - Federal	-	609,167	-	-	609,167
Restricted Cash	-	190,726	-	660,826	851,552
Total Assets	<u>\$ 1,458,907</u>	<u>\$ 923,999</u>	<u>\$ -</u>	<u>\$ 660,826</u>	<u>\$ 3,043,732</u>
Liabilities and Fund Balances					
Liabilities					
Cash Overdraft	\$ -	\$ -	\$ 267,836	\$ -	\$ 267,836
Accounts Payable	115,138	8,377	-	146,100	269,615
Deferred Revenue	-	1,053,243	-	-	1,053,243
Total Liabilities	<u>115,138</u>	<u>1,061,620</u>	<u>267,836</u>	<u>146,100</u>	<u>1,590,694</u>
Fund Balances					
Restricted:					
Capital Projects	-	-	-	513,314	513,314
Committed:					
Sick Leave	130,000	-	-	-	130,000
Site Based	57,776	-	-	-	57,776
Assigned:					
Purchase Obligation	27,475	-	-	-	27,475
Debt Service	-	-	-	1,412	1,412
Other	-	-	-	-	-
Unassigned	<u>1,128,518</u>	<u>(137,621)</u>	<u>(267,836)</u>	<u>-</u>	<u>723,061</u>
Total Fund Balances	<u>1,343,769</u>	<u>(137,621)</u>	<u>(267,836)</u>	<u>514,726</u>	<u>1,453,038</u>
Total Liabilities and Fund Balances	<u>\$ 1,458,907</u>	<u>\$ 923,999</u>	<u>\$ -</u>	<u>\$ 660,826</u>	<u>\$ 3,043,732</u>

The accompanying notes are an integral part of these financial statements.

WEBSTER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances - governmental funds		\$ 1,453,038
--	--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds:

Cost	\$ 40,546,657	
Accumulated depreciation	<u>(15,511,413)</u>	25,035,244

Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in governmental funds:

Bonds payable	\$ (17,157,039)	
Capital lease obligations	(1,250,765)	
Accrued sick leave	<u>(377,000)</u>	<u>(18,784,804)</u>

Net position of governmental activities		<u><u>\$ 7,703,478</u></u>
---	--	----------------------------

The accompanying notes are an integral part of these financial statements.

WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Revenue Fund	Construction Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues					
From Local Sources:					
Taxes:					
Property	\$ 2,366,318	\$ -	\$ -	\$ 596,632	\$ 2,962,950
Motor Vehicle	477,856	-	-	-	477,856
Unmined Mineral	171,274	-	-	-	171,274
Utility	893,795	-	-	-	893,795
Earnings on Investments	12,877	1,104	-	-	13,981
Other Local Revenues	65,148	-	-	-	65,148
Intergovernmental - State	11,760,601	730,306	-	1,232,860	13,723,767
Intergovernmental - Indirect Federal	54,166	1,502,227	-	-	1,556,393
Total Revenues	15,802,035	2,233,637	-	1,829,492	19,865,164
Expenditures					
Current:					
Instruction	6,837,499	1,239,304	-	-	8,076,803
Support Services:					
Student	1,026,784	58,438	-	-	1,085,222
Instruction Staff	1,432,666	648,456	-	-	2,081,122
District Administrative	756,008	-	-	-	756,008
School Administrative	1,320,233	-	-	-	1,320,233
Business	1,028,943	-	-	-	1,028,943
Plant Operation and Maintenance	2,163,865	-	-	-	2,163,865
Student Transportation	1,092,440	92,923	-	-	1,185,363
Community Service Activities	2,642	194,516	-	-	197,158
Capital Outlay:					
Facilities Acquisition and Construction	-	-	287,248	2,922,000	3,209,248
Debt Service:					
Principal	-	-	-	981,322	981,322
Interest	-	-	-	598,669	598,669
Total Expenditures	15,661,080	2,233,637	287,248	4,501,991	22,683,956
Excess (Deficiency) of Revenues Over (Under) Expenditures	140,955	-	(287,248)	(2,672,499)	(2,818,792)
Other Financing Sources (Uses)					
Bond Proceeds	-	-	-	2,925,437	2,925,437
Sale of Property	24,115	-	-	-	24,115
Transfers In	40,000	-	-	882,755	922,755
Transfers Out	(187,383)	-	-	(695,372)	(882,755)
Total Other Financing Sources (Uses)	(123,268)	-	-	3,112,820	2,989,552
Net Change in Fund Balance	17,687	-	(287,248)	440,321	170,760
Fund Balance, July 1, 2012 (Restated)	1,326,082	(137,621)	19,412	74,405	1,282,278
Fund Balance, June 30, 2013	\$ 1,343,769	\$ (137,621)	\$ (267,836)	\$ 514,726	\$ 1,453,038

The accompanying notes are an integral part of these financial statements.

WEBSTER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds	\$ 170,760
--	------------

Amounts reported for governmental activities in the statements of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense:

Capital outlays	\$ 3,876,531	
Depreciation expense	<u>(939,856)</u>	2,936,675

The issuance of long-term debt provides current financial resources to governmental
funds, while the repayment of the principal of long-term debt consumes the
current financial resources of governmental funds. Neither transaction, however,
has any effect on net position.

Proceeds from issuance of bonds	(2,925,237)	
Principal payments on bonds	817,090	
Principal payments on lease obligations	<u>164,232</u>	<u>(1,943,915)</u>

Change in net position of governmental activities	<u>\$ 1,163,520</u>
---	---------------------

The accompanying notes are an integral part of these financial statements.

WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Food Service Fund
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 442,090
Inventory	91,399
Accounts Receivable	40,049
Total Current Assets	<u>573,538</u>
Noncurrent Assets	
Capital Assets	848,112
Less: Accumulated Depreciation	<u>(764,997)</u>
Total Noncurrent Assets	<u>83,115</u>
Total Assets	<u>656,653</u>
Liabilities	
Current Liabilities	
Accrued Sick Leave	<u>1,500</u>
Total Current Liabilities	<u>1,500</u>
Noncurrent Liabilities	
Accrued Sick Leave	<u>13,000</u>
Total Noncurrent Liabilities	<u>13,000</u>
Total Liabilities	<u>14,500</u>
Net Position	
Invested in Capital Assets	83,115
Unrestricted	<u>559,038</u>
Total Net Position	<u><u>\$ 642,153</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Food Service Fund
Operating Revenues:	
Lunchroom Sales	\$ 407,082
Special Functions	21,720
Other Operating Revenues	640
	<hr/>
Total Operating Revenues	429,442
	<hr/>
Operating Expenses:	
Salaries and Wages	423,305
Employee Benefits	251,436
Contract Services	52,840
Materials and Supplies	521,481
Depreciation	16,672
Other Operating Expenses	1,796
	<hr/>
Total Operating Expenses	1,267,530
	<hr/>
Operating Loss	(838,088)
	<hr/>
Nonoperating Revenues (Expenses):	
Federal Grants	756,945
State Grants	136,293
Interest Income	1,565
Transfers to General Fund	(40,000)
	<hr/>
Total Nonoperating Revenues (Expenses)	854,803
	<hr/>
Income (Loss)	16,715
	<hr/>
Net Position, July 1, 2012	625,438
	<hr/>
Net Position, June 30, 2013	\$ 642,153
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

Cash Flows from Operating Activities

Cash Received from:	
Lunchroom Sales	\$ 407,082
Government Grants	895,536
Other Activities	22,360
Cash Paid To/For:	
Employees	(674,741)
Supplies	(574,321)
Other Activities	<u>(1,796)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>74,120</u></u>

Cash Flows from Non Capital Financing Activities

Transfers to General Fund	<u>(40,000)</u>
---------------------------	-----------------

Cash Flows from Investing Activities

Receipt of Interest Income	<u>1,565</u>
Net Increase (Decrease) in Cash and Cash Equivalents	35,685
Balances, Beginning of Year	<u>406,405</u>
Balances, End of Year	<u><u>\$ 442,090</u></u>

**Reconciliation of Operating Income (Loss) to Net Cash Provided
(Used) by Operating Activities**

Operating Loss	\$ (838,088)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	16,672
Government Grants	893,238
Change in Assets and Liabilities	
Receivables	3,432
Inventory	<u>(1,134)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 74,120</u></u>

Schedule of Non-Cash Transactions:

Donated Commodities Received from Federal Government	\$ 68,972
Benefits Paid by State of Kentucky on Behalf of District	<u>125,263</u>
Total Non-Cash Transactions	<u><u>\$ 194,235</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>Fiscal Agent Funds</u>	<u>Agency Funds</u>	<u>Total Fiduciary Net Position</u>
Assets			
Cash and Cash Equivalent	<u>\$ 6,665</u>	<u>\$ 309,296</u>	<u>\$ 315,961</u>
Total Assets	<u>6,665</u>	<u>309,296</u>	<u>315,961</u>
Liabilities			
Accounts Payable	118	-	118
Due to Student Groups	<u>-</u>	<u>309,296</u>	<u>309,296</u>
Total Liabilities	<u>118</u>	<u>309,296</u>	<u>309,414</u>
Net Assets Held in Trust	<u><u>\$ 6,547</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,547</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Fiscal Agency Fund</u>
Additions	
State Aid	\$ 43,237
Total Additions	<u>43,237</u>
Deductions	
Salaries and Benefits	39,705
Purchased Services	<u>6,153</u>
Total Deductions	<u>45,858</u>
Changes in Net Position	2,621
Net Position, Beginning of Year	<u>20,165</u>
Net Position, End of Year	<u><u>\$ 22,786</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Reporting Entity

The Webster County Board of Education (Board), a five member group, is a level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Webster County School District (District). The Board receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental reporting entity, as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Webster County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

These financial statements present the District and its component units, entities for which the District entity is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governmental entity's operations and so data from these units would be combined with data of the primary governmental entity. The Webster County School District has one blended component unit.

Blended Component Unit:

Webster County School District Finance Corporation - The Webster County, Kentucky, Board of Education has established the Webster County School District Finance Corporation (a nonprofit, nonstock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Webster County Board of Education also comprise the Corporation's Board of Directors.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The effect of interfund activity has been substantially removed from these statements.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation, with brief explanations, to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All revenues not meeting this definition are reported as nonoperating revenues. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District had the following funds:

Governmental Fund Types

- 1) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- 2) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 45 through 46. This is a major fund of the District.
- 3) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a proprietary fund).

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

- (a) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified in the District's facility plan.
 - (b) The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - (c) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- 4) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The School Food Service Fund (the District's only enterprise fund) is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds). The District has no trust funds.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

(b) Basis of Accounting

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the

WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include; (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the District must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

(c) Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold, as stated below, with the exception of computers and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives, listed below, for both general capital assets and proprietary fund assets.

Description	Capitalization Thresholds	Estimated Lives For Depreciation
Buildings and Improvements	\$ 25,000	25-50 Years
Land Improvements	\$ 25,000	20-25 Years
Technology Equipment	\$ 1,000	5 Years
Vehicles	\$ 5,000	5-10 Years
Food Service Equipment	\$ 1,000	12 Years
Furniture and Fixtures	\$ 1,000	7-20 Years
Other	\$ 1,000	10-15 Years

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

(d) Cash and Cash Equivalents/Restricted Cash/Investments

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. Cash is restricted in the special revenue funds per grant and other agreements, in the capital projects funds per state requirements and in debt service funds per debt agreements. (See Note 7 & 8)

Cash balances of the District's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

As security for deposits of the District, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the District. In addition, the District's accounts are insured, subject to FDIC coverage terms and limitations. (See Note 4)

State statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. Agencies, certain federal instruments, commercial bank's certificates of deposit, savings and loan deposits, repurchase agreements, and the Commonwealth of Kentucky Investment Pool.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase.

The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

(e) Inventories/Commodities

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Inventories are valued at cost or at their estimated fair value at the date of donation, using the first-in, first-out method.

For the purposes of the statement of cash flows, federal grants received does not include noncash commodities received in the amount of \$68,972.

(f) Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. Bond discounts, premiums and issuance costs are recorded as other assets in the government-wide financial statements and are amortized on a straight line basis over the life of the bonds.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

District-Wide Financial Statements

When the District incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first unless unrestricted net assets will have to be returned because they were not used. Net assets on the Statement of Net Assets include the following:

Investment in Capital Assets, Net of Related Debt – The component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Capital Projects – The component of net assets that reports the financial resources restricted to pay for construction activities.

Restricted for Debt Service – The component of net assets that reports the financial resources restricted to pay debt service on capital related debt less current accrual of interest.

Unrestricted – The difference between the assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt, Net Assets Restricted for KETS Program, or Net Assets Restricted for Debt Service.

Governmental Fund Financial Statements

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that can be spent only for specific purposes because of the state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by District.
- **Assigned** – Amounts that are designated by the District for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the District.
- **Unassigned** – All amounts not included in other spendable classifications.

(h) Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

(i) Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due-to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(j) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(k) Accrued Sick Leave

The Webster County School District allows employees to accumulate and carry over sick days from year to year. The amount of total days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to certified employees with twenty or more years of experience and classified employees with ten or more years of experience.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

3. Property Taxes

Property taxes collected are recorded as revenues in the Fund for which they were levied. Each year, property taxes are levied on October 1, based on assessments as of January 1 prepared by the Webster County property valuation administrator. The taxes are payable on November 1. The tax rates placed in effect are 47.0 cents per \$100 of assessed valuation on real estate and 47.0 cents per \$100 on personal property, of which 6.0 cents is for participation in the Facility Support Program, and 48.0 cents per \$100 of assessed valuation on motor vehicles.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

4. Cash and Cash Equivalents

At June 30, 2013, the carrying amount of the District's cash and cash equivalents was \$2,599,721 and the bank balance was \$3,203,501. As of June 30, 2013, All accounts were covered by the FDIC or securities pledged in the District's name.

The District's cash and cash equivalents at June 30, 2013:

	<u>Bank Balance</u>	<u>Book Balance</u>
United Community Bank	\$ 31,622	\$ 31,426
Independence Bank	2,940,395	2,342,010
Sebree Deposit Bank	16,753	15,724
Dixon Bank	214,671	210,501
JP Morgan	<u>60</u>	<u>60</u>
	<u>\$ 3,203,501</u>	2,599,721
 Restricted Cash		 <u>583,716</u>
 Unrestricted Cash and Cash Equivalents		 <u>\$ 2,016,005</u>
 Reported in the Financial Statement:		
Governmental Funds		\$ 1,257,954
Proprietary Funds		442,090
Fiduciary Funds		<u>315,961</u>
		 <u>\$ 2,016,005</u>

5. Restricted Cash

Restricted Cash at June 30, 2013 consists of the following:

Special Revenue	\$ 190,726
Capital Outlay Fund	8,190
Building Fund	651,224
Construction Fund	(267,836)
Debt Service Fund	<u>1,412</u>
 Total Restricted Cash	 <u>\$ 583,716</u>

WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

6. Capital Assets

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities:				
Not depreciated:				
Land	\$ 544,352	\$ -	\$ -	\$ 544,352
Construction in Progress	-	193,551	-	193,551
	<u>544,352</u>	<u>193,551</u>	<u>-</u>	<u>737,903</u>
Depreciated:				
Land Improvements	680,864	96,609	-	777,473
Buildings and improvements	30,543,888	2,925,480	-	33,469,368
Technology equipment	1,073,918	147,140	(232,581)	988,477
Vehicles	3,168,298	505,086	-	3,673,384
General	891,387	8,665	-	900,052
	<u>36,358,355</u>	<u>3,682,980</u>	<u>(232,581)</u>	<u>39,808,754</u>
Totals at historical cost	<u>36,902,707</u>	<u>3,876,531</u>	<u>(232,581)</u>	<u>40,546,657</u>
Less: accumulated depreciation				
Land Improvements	(435,585)	(27,161)	-	(462,746)
Buildings and improvements	(10,696,093)	(609,490)	-	(11,305,583)
Technology equipment	(825,814)	(81,922)	232,581	(675,155)
Vehicles	(2,318,933)	(181,603)	-	(2,500,536)
General	(527,713)	(39,680)	-	(567,393)
Total accumulated depreciation	<u>(14,804,138)</u>	<u>(939,856)</u>	<u>232,581</u>	<u>(15,511,413)</u>
Governmental Activities Capital Assets - Net	<u>\$ 22,098,569</u>	<u>\$ 2,936,675</u>	<u>\$ -</u>	<u>\$ 25,035,244</u>
Business-Type Activities:				
Depreciated:				
Food service equipment	\$ 776,083	\$ -	\$ -	\$ 776,083
Technology equipment	54,280	-	-	54,280
Vehicle	17,749	-	-	17,749
	<u>848,112</u>	<u>-</u>	<u>-</u>	<u>848,112</u>
Total at historical cost	<u>848,112</u>	<u>-</u>	<u>-</u>	<u>848,112</u>
Less: accumulated depreciation				
Food service equipment	(676,296)	(16,672)	-	(692,968)
Technology equipment	(54,280)	-	-	(54,280)
Vehicle	(17,749)	-	-	(17,749)
Total accumulated depreciation	<u>(748,325)</u>	<u>(16,672)</u>	<u>-</u>	<u>(764,997)</u>
Business-Type Activities Capital Assets - Net	<u>\$ 99,787</u>	<u>\$ (16,672)</u>	<u>\$ -</u>	<u>\$ 83,115</u>

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

7. Long-Term Debt

The original amount of each issue, the issue date and interest rate are summarized below:

Issue Date	Issue Name	Original Amount	Interest Rate	Maturity Date
2001	Renovations - Dixon Elementary	\$ 1,550,000	4.60%	2021
2004R	94 Refunding	2,880,000	1.90-3.625%	2016
2005	HVAC - Clay Elementary	2,085,000	3.90%	2026
2006	Renovations - Slaughters Elementary	900,000	3.90%	2027
2008	Renovations - WCHS	9,995,000	3.00-4.875%	2029
(A)KISTA - 2003	Renovations - Providence Elementary	280,000	1.50-4.70%	2023
(A) - 2004	95 Refunding	410,000	1.30-3.50%	2015
(A) - 2004	Renovations - Restrooms Povidence Elementary	300,000	4.625%	2024
KISTA - 2009R	Refunding	603,191	1.00-3.25%	2019
2010R	Refunding	1,020,000		2021
2011	Roof - Clay & Providence	178,485	1.50-3.50%	2021
2012	Energy Conservation	3,005,000	.9-2.6%	2032

(A) These bonds and KISTA loans were assumed by the Webster County School District through the merger agreement dated December 12, 2006

The district, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in the amount sufficient to satisfy debt service requirements on bonds issued by the Webster County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding

In connection with the school revenue bonds and KISTA Series, the District entered into "participation agreements" with the school facility construction commission. The commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the commission for each year until maturity of all bond issues and KISTA Series. The liability for the total amount remains with the district and as such, the total principal outstanding has been recorded in the financial statements.

The bonds and series may be called prior to maturity and redemption premiums are specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum requirements of the District including amounts to be paid by the commission at June 30, 2013, for debt service (principal and interest) are as follows:

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

7. Long-Term Debt, Continued

Year	Webster County Board of Education		School Facilities Construction Commission		Total Requirements		Bonds Outstanding
	Interest	Bonds	Interest	Bonds	Interest	Bonds	
							\$ 17,157,039
2013-2014	348,440	515,264	265,824	432,051	614,264	947,315	16,209,724
2014-2015	331,727	546,066	253,084	431,002	584,811	977,068	15,232,656
2015-2016	313,068	570,591	239,535	432,924	552,603	1,003,515	14,229,141
2016-2017	289,621	517,555	224,996	446,046	514,617	963,601	13,265,540
2017-2018	272,716	543,270	209,178	460,666	481,894	1,003,936	12,261,604
2018-2019	254,853	555,953	192,695	452,166	447,548	1,008,119	11,253,485
2019-2020	236,097	581,432	176,087	443,568	412,184	1,025,000	10,228,485
2020-2021	216,126	611,229	159,019	458,771	375,145	1,070,000	9,158,485
2021-2022	194,545	638,040	141,058	390,445	335,603	1,028,485	8,130,000
2022-2023	172,089	659,655	124,293	405,345	296,382	1,065,000	7,065,000
2023-2024	148,219	688,885	106,657	401,115	254,876	1,090,000	5,975,000
2024-2025	122,663	711,827	88,674	398,173	211,337	1,110,000	4,865,000
2025-2026	95,693	733,230	70,077	416,770	165,770	1,150,000	3,715,000
2026-2027	70,904	588,330	50,178	436,670	121,082	1,025,000	2,690,000
2027-2028	50,458	507,196	29,043	457,804	79,501	965,000	1,725,000
2028-2029	32,076	462,276	9,085	372,724	41,161	835,000	890,000
2029-2030	20,410	210,000	-	-	20,410	210,000	680,000
2030-2031	14,820	220,000	-	-	14,820	220,000	460,000
2031-2032	9,035	225,000	-	-	9,035	225,000	235,000
2032-2033	3,055	235,000	-	-	3,055	235,000	-
Total	\$ 3,196,615	\$ 10,320,799	\$ 2,339,483	\$ 6,836,240	\$ 5,536,098	\$ 17,157,039	

During the year ended June 30, 2013, the following changes occurred in long term debt:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Governmental Activities:					
Revenue Bonds:					
Issue of 2004	1,265,000	-	305,000	960,000	315,000
Issue of 2005	1,595,000	-	85,000	1,510,000	85,000
Issue of 2006	850,000	-	10,000	840,000	10,000
Issue of 2008	9,280,000	-	255,000	9,025,000	260,000
Issue of 2010 <Refunding>	905,000	-	95,000	810,000	95,000
KISTA - 2003	185,000	-	15,000	170,000	15,000
Issue of 2004 <Refunding>	125,000	-	40,000	85,000	40,000
Issue of 2004	210,000	-	15,000	195,000	15,000
KISTA - 2009<Refunding>	460,644	-	67,090	393,554	67,315
Issue of 2011	178,485	-	15,000	163,485	15,000
Issue of 2012	-	3,005,000	-	3,005,000	30,000
	<u>15,054,129</u>	<u>3,005,000</u>	<u>902,090</u>	<u>17,157,039</u>	<u>947,315</u>
Accrued Sick Leave	<u>377,000</u>	<u>-</u>	<u>-</u>	<u>377,000</u>	<u>50,195</u>
	<u>\$ 15,431,129</u>	<u>\$ 3,005,000</u>	<u>\$ 902,090</u>	<u>\$ 17,534,039</u>	<u>\$ 997,510</u>
Business-Type Activities:					
Accrued Sick Leave	<u>\$ 14,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,500</u>	<u>\$ 1,500</u>

WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

8. Capital Lease Obligations

The District has entered into lease agreements with KISTA for financing the acquisitions of school buses. The following is an analysis of leased property under capital lease:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Vehicles	\$ 2,467,641	\$ 1,127,373

The following is a schedule, by years, of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2013.

	<u>Year Ending</u>	<u>KISTA Leases</u>	<u>Total Payments</u>
	2014	244,752	244,752
	2015	220,592	220,592
	2016	181,887	181,887
	2017	180,304	180,304
	2018	119,029	119,029
	2019-2023	437,951	437,951
Total Minimum Lease Payments		1,384,515	1,384,515
Lease Amount Representing Interest		(133,750)	(133,750)
Present Value of Net Minimum Lease Payments		<u>\$ 1,250,765</u>	<u>\$ 1,250,765</u>

During the year ended June 30, 2013, the following changes occurred in the capital lease obligations:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2013</u>	<u>Due in One Year</u>
KISTA 04	23,588	-	11,604	11,984	11,984
KISTA 05	53,904	-	19,658	34,246	16,836
KISTA 06	143,623	-	28,524	115,099	29,695
KISTA 07	161,073	-	32,485	128,588	33,162
KISTA 03(P)	5,458	-	5,458	-	-
KISTA 04(P)	11,095	-	5,458	5,637	5,637
KISTA 08	58,211	-	9,463	48,748	9,758
KISTA 11	156,533	-	19,342	137,191	16,553
KISTA 12	296,426	-	32,240	264,186	33,379
KISTA 13	-	505,086	-	505,086	55,364
	<u>\$ 909,911</u>	<u>\$ 505,086</u>	<u>\$ 164,232</u>	<u>\$ 1,250,765</u>	<u>\$ 212,368</u>

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

9. Retirement Plans

KTRS

The Webster County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 9.855% and 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% and 14.105% of salaries. The matching contributions are paid by the federal programs for any salaries paid by that program. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). The Webster County School District's total payroll for the year was \$11,399,610. The payroll for employees covered under KTRS was \$8,499,668. For the year ended June 30, 2013, the Commonwealth contributed \$1,027,946 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2013, 2012 and 2011 were \$123,636, \$63,132, and \$65,775, respectively, which represent 100% of the required contributions for those employees covered by federal programs.

CERS

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Plan members are required to contribute 5% of their annual creditable compensation and the District is required to contribute at an actuarially determined rate. The current rate is 19.55% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$566,939, \$543,982, and \$505,836, respectively, equal to the required contributions for each year.

Other

The District also offers employees the option to participate in defined contribution plans under Sections 401(k) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

10. Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or to refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue its programs.

As shown in Note 7 above, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the Bond Series. In the unlikely event the KSFCC defaults on their portion of the bond series, the District is responsible to repay the amount in full. KSFCC's portion as of June 30, 2013, was \$6,836,240.

11. Litigation

The District is involved in a litigation the outcome of which is not determinable at this time. Administration officials and legal counsel do not anticipate that there will be any material effect on the financial statements as a result of this case presently in progress.

12. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District bought a commercial insurance policy. The District pays an annual premium for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

14. Transfer of Funds

The following transfers were made during the year:

From Fund	To Fund	Amount
Capital Projects (SEEK)	Debt Service	\$ 193,230
Capital Projects (FSPK)	Debt Service	\$ 502,142
Food Service	General	\$ 40,000
General	Debt Service	\$ 187,383

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

15. On-Behalf Payments

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2013. The amounts are included in the General Fund and Food Service Fund as Intergovernmental-State revenues. In the General Fund, the retirement payments and the state operated vocational education payments are recorded as additional instruction expense and the health insurance, life insurance and flexible spending (net of fees) payments are allocated to the various expense functions based on a ratio of employees. In the Food Services Fund, all of the payments are recorded as additional employee benefits.

Kentucky Teachers Retirement System, Health Insurance, and Life Insurance, Net of Federal Reimbursement	\$ 3,258,729
Technology	54,928
Debt Service	<u>696,912</u>
Total	<u>\$ 4,010,569</u>

16. Deficit Operating Fund Balances

The District had two funds with a deficit operating fund balance as of June 30, 2013.

Special Revenue Fund	\$ 137,621
Construction Fund	<u>267,836</u>
	<u>\$ 405,457</u>

17. Restatement of Fund Balances

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>FSPK Fund</u>
Fund Balances, July 1, 2012	\$ 1,326,018	\$ -	\$ 146,284
(A) Typographical Error	64		
(B) Prior Years Projects Closed by Audit But Did Not Close Actual Projects in Munis. FYE 6/30/13, All Projects Were Closed to Zero (0). These Are The Differences to Close. Amount Was Placed in Fund Balance Assigned Other per KDE		(137,621)	
(C) Cash and Fund Balance Overstated Due to Reclassification			(80,129)
Fund Balances, July 1, 2012<Restated>	<u>\$ 1,326,082</u>	<u>\$ (137,621)</u>	<u>\$ 66,155</u>

WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

18. Restatement of Net Position

	<u>Governmental Activities</u>
Net Position, July 1, 2012	\$ 7,309,303
Less: Lease Obligations to KISTA For Buses	<u>(769,345)</u>
Net Position, July 1, 2012<Restated>	<u><u>\$ 6,539,958</u></u>

WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From Local Sources				
Taxes				
Property	\$ 2,439,447	\$ 2,439,447	\$ 2,366,318	\$ (73,129)
Motor Vehicle	448,000	448,000	477,856	29,856
Unmined Mineral	100,000	100,000	171,274	71,274
Utility	700,000	700,000	893,795	193,795
Other Taxes	230,000	230,000	-	(230,000)
Earnings on Investments	6,000	6,000	12,877	6,877
Tuition	4,000	4,000	-	(4,000)
Other Local Revenues	74,084	74,084	65,148	(8,936)
Intergovernmental - State	8,509,248	8,509,248	11,760,601	3,251,353
Intergovernmental - Indirect Federal	76,509	76,509	54,166	(22,343)
Total Revenues	12,587,288	12,587,288	15,802,035	3,214,747
Expenditures				
Current:				
Instruction	6,659,571	6,659,571	6,837,499	(177,928)
Support Services:				
Student	964,061	964,061	1,026,784	(62,723)
Instruction Staff	500,706	500,706	1,432,666	(931,960)
District Administrative	836,152	836,152	756,008	80,144
School Administrative	786,738	786,738	1,320,233	(533,495)
Business	587,074	587,074	1,028,943	(441,869)
Plant Operation and Maintenance	1,844,626	1,844,626	2,163,865	(319,239)
Student Transportation	1,092,035	1,092,035	1,092,440	(405)
Contingency	425,784	425,784	-	425,784
Community Service Activities	1,020	1,020	2,642	(1,622)
Total Expenditures	13,697,767	13,697,767	15,661,080	(1,963,313)
Excess (Deficit) of Revenues Over Expenditures	(1,110,479)	(1,110,479)	140,955	1,251,434
Other Financing Sources (Uses)				
Sale of Property	23,263	23,263	24,115	852
Operating Transfers In	40,000	40,000	40,000	-
Operating Transfers Out	(170,043)	(170,043)	(187,383)	(17,340)
Total Other Financing Sources (Uses)	(106,780)	(106,780)	(123,268)	(16,488)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(1,217,259)	(1,217,259)	17,687	1,234,946
Fund Balance, July 1, 2012	1,217,259	1,217,259	1,326,082	108,823
Fund Balance, June 30, 2013	\$ -	\$ -	\$ 1,343,769	\$ 1,343,769

WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor Vehicle	-	-	-	-
Unmined Mineral	-	-	-	-
Utility	-	-	-	-
Earnings on Investments	-	-	1,104	1,104
Intergovernmental - State	701,988	701,988	730,306	28,318
Intergovernmental - Indirect Federal	1,368,472	1,368,472	1,502,227	133,755
Total Revenues	<u>2,070,460</u>	<u>2,070,460</u>	<u>2,233,637</u>	<u>163,177</u>
Expenditures				
Current:				
Instruction	1,156,733	1,156,733	1,239,304	(82,571)
Support Services:				
Student	60,673	60,673	58,438	2,235
Instruction Staff	587,327	587,327	648,456	(61,129)
District Administrative	-	-	-	-
School Administrative	-	-	-	-
Business	-	-	-	-
Plant Operation and Maintenance	-	-	-	-
Student Transportation	78,585	78,585	92,923	(14,338)
Community Service Activities	187,429	187,429	194,516	(7,087)
Total Expenditures	<u>2,070,747</u>	<u>2,070,747</u>	<u>2,233,637</u>	<u>(162,890)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(287)</u>	<u>(287)</u>	<u>-</u>	<u>287</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(287)</u>	<u>(287)</u>	<u>-</u>	<u>287</u>
Fund Balance, July 1, 2012 <Restated>	<u>-</u>	<u>-</u>	<u>(137,621)</u>	<u>(137,621)</u>
Fund Balance, June 30, 2013	<u>\$ (287)</u>	<u>\$ (287)</u>	<u>\$ (137,621)</u>	<u>\$ (137,334)</u>

WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONSTRUCTION FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor Vehicle	-	-	-	-
Unmined Mineral	-	-	-	-
Utility	-	-	-	-
Other Taxes	-	-	-	-
Earnings on Investments	-	-	-	-
Tuition	-	-	-	-
Other Local Revenues	-	-	-	-
Intergovernmental - State	-	-	-	-
Intergovernmental - Indirect Federal	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Current:				
Instruction	-	-	-	-
Support Services:				
Student	-	-	-	-
Instruction Staff	-	-	-	-
District Administrative	-	-	-	-
School Administrative	-	-	-	-
Business	-	-	-	-
Plant Operation and Maintenance	-	-	-	-
Student Transportation	-	-	-	-
Contingency	176,430	176,430	-	176,430
Community Service Activities	-	-	-	-
Capital Outlay				
Facilities Acquisition and Construction	4,020,053	4,020,053	287,248	3,732,805
Total Expenditures	<u>4,196,483</u>	<u>4,196,483</u>	<u>287,248</u>	<u>3,909,235</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(4,196,483)</u>	<u>(4,196,483)</u>	<u>(287,248)</u>	<u>3,909,235</u>
Other Financing Sources (Uses)				
Bond Proceeds	4,196,483	4,196,483	-	(4,196,483)
Sale of Property	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>4,196,483</u>	<u>4,196,483</u>	<u>-</u>	<u>(4,196,483)</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>-</u>	<u>-</u>	<u>(287,248)</u>	<u>(287,248)</u>
Fund Balance, July 1, 2012	<u>1,217,259</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2013	<u>\$ 1,217,259</u>	<u>\$ -</u>	<u>\$ (287,248)</u>	<u>\$ (287,248)</u>

**WEBSTER COUNTY SCHOOL DISTRICT
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS
FOR THE YEAR ENDED JUNE 30, 2013**

Budgetary Process

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. All annual appropriations lapse at fiscal year-end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

Reconciliation between the Budgetary Basis of Accounting and GAAP

General Fund

A basis difference exists in the general fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments. The Kentucky Department of Education prohibits Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

	General Fund BUDGET BASIS	General Fund GAAP BASIS	Difference
Revenues			
Intergovernmental - State	\$ 11,760,601	\$ 14,928,976	\$ 3,168,375
Expenditures:			
Instruction	6,837,499	7,213,466	375,967
Support Services:			
Student	1,026,784	1,147,982	121,198
Instructional Staff	1,432,666	2,442,836	1,010,170
District Administration	756,008	1,031,639	275,631
School Administration	1,320,233	1,861,799	541,566
Business	1,028,943	1,464,099	435,156
Plant Operations Maintenance	2,163,865	2,494,501	330,636
Student Transportation	1,092,440	1,170,491	78,051

Special Revenue Fund

There were no material variances between GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District.

**WEBSTER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Restricted Cash	\$ 651,224	\$ 8,190	\$ 1,412	\$ 660,826
Total Assets	<u>\$ 651,224</u>	<u>\$ 8,190</u>	<u>\$ 1,412</u>	<u>\$ 660,826</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 146,100	\$ -	\$ -	\$ 146,100
Total Liabilities	<u>146,100</u>	<u>-</u>	<u>-</u>	<u>146,100</u>
Fund Balances				
Restricted for Capital Projects	505,124	8,190	-	513,314
Restricted for Debt Service	-	-	1,412	1,412
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>505,124</u>	<u>8,190</u>	<u>1,412</u>	<u>514,726</u>
Total Liabilities and Fund Balances	<u>\$ 651,224</u>	<u>\$ 8,190</u>	<u>\$ 1,412</u>	<u>\$ 660,826</u>

WEBSTER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From Local Sources:				
Taxes:				
Property	\$ 596,632	\$ -	\$ -	\$ 596,632
Intergovernmental - State	341,042	193,230	698,588	1,232,860
Total Revenues	<u>937,674</u>	<u>193,230</u>	<u>698,588</u>	<u>1,829,492</u>
Expenditures				
Capital Outlay:				
Facilities Acquisition and Construction	2,922,000	-	-	2,922,000
Debt Service:				
Principal	-	-	981,322	981,322
Interest	-	-	598,669	598,669
Total Expenditures	<u>2,922,000</u>	<u>-</u>	<u>1,579,991</u>	<u>4,501,991</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(1,984,326)</u>	<u>193,230</u>	<u>(881,403)</u>	<u>(2,672,499)</u>
Other Financing Sources (Uses)				
Bond Proceeds	2,925,437	-	-	2,925,437
Transfers In	-	-	882,755	882,755
Transfers Out	(502,142)	(193,230)	-	(695,372)
Total Other Financing Sources (Uses)	<u>2,423,295</u>	<u>(193,230)</u>	<u>882,755</u>	<u>3,112,820</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>438,969</u>	<u>-</u>	<u>1,352</u>	<u>440,321</u>
Fund Balance, July 1, 2012 <Restated>	<u>66,155</u>	<u>8,190</u>	<u>60</u>	<u>74,405</u>
Fund Balance, June 30, 2013	<u>\$ 505,124</u>	<u>\$ 8,190</u>	<u>\$ 1,412</u>	<u>\$ 514,726</u>

WEBSTER COUNTY SCHOOL DISTRICT
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

School	Cash Balances July 1, 2012	Receipts	Disbursements	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Webster County High School	\$ 176,468	\$ 460,136	\$ 471,676	\$ 164,928	\$ -	\$ -	\$ 164,928
Ashmore Scholarship	40,515	215	1,500	39,230	-	-	39,230
Clay Elementary	24,703	119,601	112,878	31,426	-	-	31,426
Dixon Elementary	43,207	79,036	76,670	45,573	-	-	45,573
Providence Elementary	2,703	40,161	38,472	4,392	-	-	4,392
Sebree Elementary	15,746	61,680	61,702	15,724	-	-	15,724
Slaughters Elementary	3,855	-	3,855	-	-	-	-
Waggoner Scholarship	8,481	42	500	8,023	-	-	8,023
TOTAL	\$ 315,678	\$ 760,871	\$ 767,253	\$ 309,296	\$ -	\$ -	\$ 309,296

Note: Included in receipts and disbursements are interfund transfers of \$ 59,580.

**WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
WEBSTER COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balances July 1, 2012	Receipts	Disbursements	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Academic Team	\$ 419	\$ 241	\$ 266	394	\$ -	\$ -	\$ 394
Agriculture	988	1,949	2,205	732	-	-	732
Annual	15,106	18,331	19,526	13,911	-	-	13,911
Archery	1,015	-	-	1,015	-	-	1,015
Athletic	30,061	134,795	131,731	33,125	-	-	33,125
Athletic - Boys BB	177	1,700	1,625	252	-	-	252
Athletic - Girls BB	33	3,912	3,329	616	-	-	616
Band	52	120	-	172	-	-	172
Baseball	21	3,412	3,344	89	-	-	89
Beta	371	3,156	2,546	981	-	-	981
Bookstore	7,771	10,070	12,784	5,057	-	-	5,057
Charitable	-	2,565	2,565	-	-	-	-
Cheerleaders	315	350	303	362	-	-	362
Chess	-	220	214	6	-	-	6
Class of '14	1,871	4,125	5,197	799	-	-	799
Class of '16	-	1,230	1,223	7	-	-	7
Cross Country - Boys & Girls	538	500	892	146	-	-	146
Culinary Skills	417	5,020	3,815	1,622	-	-	1,622
Dance Team	519	1,500	1,698	321	-	-	321
F.F.A.	12	36,929	36,892	49	-	-	49
FACS	495	1,259	745	1,009	-	-	1,009
FCA	173	170	-	343	-	-	343
FCCLA	1,271	6,104	5,173	2,202	-	-	2,202
Football	15,182	11,315	15,355	11,142	-	-	11,142
General Fund	8,664	35,430	36,799	7,295	-	-	7,295
Girls Softball	270	1,150	606	814	-	-	814
Golf - Boys	6,144	7,195	9,030	4,309	-	-	4,309
Golf - Girls	-	2,789	1,285	1,504	-	-	1,504
Graduation	232	-	128	104	-	-	104
Greenhouse	11,257	6,791	6,024	12,024	-	-	12,024
Guidance	561	2,223	2,776	8	-	-	8
Inst. Science	1,300	3,670	4,036	934	-	-	934
Library	1,809	1,120	991	1,938	-	-	1,938
Middle School Athletics	13,749	32,803	26,948	19,604	-	-	19,604
Military Club	-	120	-	120	-	-	120
Mock Trial	682	-	-	682	-	-	682
Physical Education	941	562	356	1,147	-	-	1,147
Project Graduation	2,217	10,996	12,244	969	-	-	969
Quiz Bowl	63	1,335	826	572	-	-	572
R.C.	5,194	907	320	5,781	-	-	5,781
Renaissance	4,889	130	2,761	2,258	-	-	2,258
Scholarships	4,161	1,300	530	4,911	-	-	4,911
Senior Class Trip	4,725	77,900	79,235	3,390	-	-	3,390
Soccer	174	2,942	2,724	392	-	-	392
Student Council	79	-	-	79	-	-	79
Student Rewards	763	10	755	18	-	-	18
Teachers Lounge-Drinks	772	3,793	4,379	186	-	-	186
Tennis - Boys & Girls	1,484	836	1,821	499	-	-	499
Track - Boys & Girls	2,317	2,180	2,135	2,362	-	-	2,362
Volleyball	360	3,207	3,296	271	-	-	271
WC FRYSC Memorial Fund	255	-	255	-	-	-	-
Young Politicians	551	615	-	1,166	-	-	1,166
Youth Experiencing Success	3,234	2,907	2,522	3,619	-	-	3,619
Text Rent Fees	21,666	6,937	16,722	11,881	-	-	11,881
Pep Club	1,067	555	-	1,622	-	-	1,622
Practical Living	81	760	724	117	-	-	117
TOTAL	\$ 176,468	\$ 460,136	\$ 471,676	\$ 164,928	\$ -	\$ -	\$ 164,928

**WEBSTER COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR PASS-THROUGH GRANTOR	FEDERAL CFDA#	AGENCY OR PASS-THROUGH NUMBER	FEDERAL DISBURSEMENTS /EXPENDITURES
PROGRAM TITLE			
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	7760005	\$ 206,128
NATIONAL SCHOOL LUNCH PROGRAM	10.555	7750002	550,817
TOTAL CHILD NUTRITION CLUSTER			<u>756,945</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>756,945</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3101D 3101M 3101T 3102 3102D 3102T 3103 3143 3202	6,966 4,972 3,752 129,008 43,738 4,775 338,829 16,484 8,126 <u>556,650</u>
MIGRANT EDUCATION STATE GRANT PROGRAM	84.011	3112 3112S 3113	42,050 1,412 103,076 <u>146,538</u>
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES (IDEA, PART B)	84.027	3372 3373	250,963 280,818
SPECIAL EDUCATION - PRESCHOOL GRANTS (IDEA, PRESCHOOL)	84.173	3430P 3431 3432	968 10,046 34,370
TITLE III IMIGRANT	84.365A	3453	<u>20,324</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>597,489</u>

U.S. DEPARTMENT OF EDUCATION, CONTINUED

RURAL EDUCATION	84.358	3502	17,258
		3503	33,083
			<u>50,341</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.196	3219	<u>780</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATE	84.048	3482	2,053
		3483	10,049
			<u>12,102</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	4012	31,141
		4013	72,452
			<u>103,593</u>
SERVICE LEARNING GRANT	94.004	6751	2,691
			<u>2,691</u>
EDUCATION JOBS FUND	84.410	4411	<u>19,058</u>
RACE TO THE TOP	84.412	4521	<u>12,987</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,502,229</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,259,174</u>

Note A: Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of the Webster County School District Board of Education under programs of the federal government for the year ended June 30, 2013. The information in the Schedule is presented in accordance with the requirements of Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Because this Schedule presents only a selected portion of the operations of the Webster County School District Board of Education, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Webster County School District Board of Education.

Note B: Summary of Significant Accounting Policies

- (1) Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, wherein, certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

**WEBSTER COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2013**

<u>Board Members</u>	<u>Address</u>	<u>Term Expires</u>
Jeff Pettit Chairman	Sebree, Kentucky	January 1, 2015
Tim McCormick	Clay, Kentucky	January 1, 2015
Leland Steely	Sebree, Kentucky	January 1, 2017
David Higgins	Providence, Kentucky	January 1, 2017
Mickey Dunbar Vice Chairman	Dixon, Kentucky	January 1, 2017

Administrative Personnel

Dr. James A. Kemp - Superintendent and Secretary of the Board

Alan Lossner - Assistant Superintendent

Riley Ramsey – Assistant Superintendent

Brandi Burnett – Treasurer



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webster County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Webster County School District's basic financial statements, and have issued my report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Webster County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Webster County School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Webster County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a deficiency in internal control reporting, described in the accompanying schedule of findings and questioned costs (2013-1) that I consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Webster County School District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract.

Webster County School District's Response to Findings

Webster County School District's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. Webster County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Michael L. Overby, CPA, PLLC
October 28, 2013



Michael L. Overby, CPA, PLLC
Certified Public Accountant
2201 Westerfield Drive, Suite C
Providence, KY 42450

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky

Report on Compliance for Each Major Federal Program

I have audited Webster County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Webster County School District's major federal programs for the year ended June 30, 2013. Webster County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Webster County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract. Those standards, requirements, and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Webster County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However my audit does not provide a legal determination of Webster County School District's compliance.

Opinion on Each Major Federal Program

In my opinion, Webster County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of my auditing procedures disclosed an instance of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. My opinion on each major federal program is not modified with respect to these matters.

Webster County School District's response to the noncompliance findings identified in my audit are described in the accompanying schedule of findings and questioned costs. Webster County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

Report on Internal Control Over Compliance

Management of Webster County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Webster County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Webster County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I considered to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a deficiency in internal control

reporting, described in the accompanying schedule of findings and questioned costs (2013-1) that I consider to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Michael L. Overby CPA, PLLC". The signature is written in a cursive, flowing style.

Michael L. Overby, CPA, PLLC
October 28, 2013

**WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2013**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Webster County School District.
2. One significant deficiency was disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This significant deficiency is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Webster County School District were disclosed during the audit.
4. There were no significant deficiencies in internal control disclosed during the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB A-133. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for the Webster County School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

- Title I	84.010
Child Nutrition Cluster:	
- National School Lunch	10.555
- School Breakfast	10.553
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Webster County Board of Education was determined not to be a low risk auditee.

B. Findings-Financial Statements Audit

2013-01-Significant Deficiency-Purchasing

Condition: There were several instances where purchase orders were not utilized and prepared properly.

Criteria: Effective internal controls over purchasing are necessary to ensure that purchase orders are properly prepared and authorized.

Cause: Although there is a purchasing policy, it is not being complied with which results in purchase orders not being prepared properly.

**WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2013**

Effect: There were several purchase orders that were prepared and dated subsequent to the vendor's invoice, standard invoices used instead of purchase orders, and documents not properly approved.

Recommendation: I recommend that purchase orders be utilized and properly completed. I further recommend a thorough review of the District's purchasing policy.

Management's Response: The District will review its purchasing policy and make the necessary adjustments. Finance will make the responsible employees aware of the policies and procedures required for purchasing at the District level.

C. Findings and Questioned Costs-Major Federal Award Program Audit

None Reported.

D. Schedule of Prior Audit Findings (Relative to Federal Awards)

None Reported.



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky 42409

In planning and performing my audit of the financial statements of the Webster County School District for the year ended June 30, 2013, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. A separate report dated October 28, 2013, contains my report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect my report dated October 28, 2013 on the financial statements of the Webster County School District.

I appreciate the opportunity to bring these comments to your attention. I have already discussed many of these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

A handwritten signature in black ink, reading 'Michael L. Overby CPA, PLLC'.

Michael L. Overby CPA, PLLC
October 28, 2013

**WEBSTER COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2013**

Current Year Management Letter Points

1) Purchase Orders

I noted instances of purchase orders not being prepared properly. Purchase orders are to be used as documentation that a purchase is properly authorized, not merely an additional form to be attached to an invoice indicating approval. Except for purchases made on the same day, purchase orders should pre-date the vendor's invoice and the check date. Not only does the proper use of purchase orders and in the control of school expenses, it also protects purchases from the possibility of being denied reimbursements of purchases for school purposes. It was also discovered that the purchase request and purchase orders were signed by the principal. (Relates to all schools). There has been a significant improvement over prior years.

Recommendation: I recommend that purchase orders be utilized and properly completed as required by the "Red Book."

Response: Schools will be directed to comply with all rules of the "Red Book" in relation to purchase orders. Specifically, they will be directed to issue purchase orders before invoices and payments.

2) Required Forms

The KDOE "Red Book" requires use of specific forms (or reasonable facsimiles) for certain activities such as: (1) Multiple receipts, (2) Fundraising, (3) Inventory control, (4) Internal account – budgets, (5) Transfers, (6) Ticket sales, and (7) Annual financing reports. I noted instances where it appeared that these forms were either not completed or completed incorrectly. There has been a significant improvement over prior years.

Multiple Receipts: Many completed by teachers (All Schools)

Recommendation: I recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these forms.

Response: Individual schools will be directed to follow all requirements of "Red Book" in relation to these required forms.

3) Fixed Assets

Governmental accounting standards require that the District record and account for changes in its fixed assets, including depreciation. I noted deficiencies in the recording of fixed assets, specifically, the incorporation of the fixed assets from the Providence Independent School District following the merger, and fixed assets not being recorded on the fixed asset schedule. Also, the tagging of the fixed assets has been inconsistent with the numerical sequence of the tags. A fixed asset policy has been adopted to provide for the asset policy and controls include guidelines and procedures for centralized recording of additions and deletions to the District's fixed asset. Noncompliance with the policy and its internal controls provides opportunities for the undetected loss of assets.

Recommendation: I recommend strict adherence to the District's fixed asset procedures. I also recommend all fixed assets be retagged using a consistent system of number with the corresponding school location numbers being incorporated into the number.

Response: The area of fixed assets is improving, however, the board is making a consciences effort to adhere to this policy.

**WEBSTER COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2013**

Prior Year Management Letter Points

1) Purchase Orders

I noted instances of purchase orders not being prepared properly. Purchase orders are to be used as documentation that a purchase is properly authorized, not merely an additional form to be attached to an invoice indicating approval. Except for purchases made on the same day, purchase orders should pre-date the vendor's invoice and the check date. Not only does the proper use of purchase orders and in the control of school expenses, it also protects purchases from the possibility of being denied reimbursements of purchases for school purposes. It was also discovered that the purchase request and purchase orders were not signed by the teacher requesting the purchase. (Relates to all schools).

Recommendation: I recommend that purchase orders be utilized and properly completed as required by the "Red Book."

Response: Schools will be directed to comply with all rules of the "Red Book" in relation to purchase orders. Specifically, they will be directed to issue purchase orders before invoices and payments.

See comment FYE 6/30/2013

2) Required Forms

The KDOE "Red Book" requires use of specific forms (or reasonable facsimiles) for certain activities such as: (1) Multiple receipts, (2) Fundraising, (3) Inventory control, (4) Internal account – budgets, (5) Transfers, (6) Ticket sales, and (7) Annual financing reports. I noted instances where it appeared that these forms were either not completed or completed incorrectly.

Multiple Receipts: Many completed by teachers (All Schools)

Fundraising: Same forms were either not used or used incorrectly. (Clay, Dixon)

Inventory Control: Some forms were either not used or used incorrectly. (Dixon)

Recommendation: I recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these forms.

Response: Individual schools will be directed to follow all requirements of "Red Book" in relation to these required forms.

See comment FYE 6/30/2013

3) Fixed Assets

Governmental accounting standards require that the District record and account for changes in its fixed assets, including depreciation. I noted deficiencies in the recording of fixed assets, specifically, the incorporation of the fixed assets from the Providence Independent School District following the merger, and fixed assets not being recorded on the fixed asset schedule. Also, the tagging of the fixed assets has been inconsistent with the numerical sequence of the tags. A fixed asset policy has been adopted to provide for the asset policy and controls include guidelines and procedures for centralized recording of additions and deletions to the District's fixed asset.

Noncompliance with the policy and its internal controls provides opportunities for the undetected loss of assets.

Recommendation: I recommend strict adherence to the District's fixed asset procedures. I also recommend all fixed assets be retagged using a consistent system of number with the corresponding school location numbers being incorporated into the number.

Response: A full-time employee has been hired to be responsible for all recording of fixed asset additions and deletions and for the consistency of tags being used.

See finding 2010-1 – Significant Deficiency